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SUBJECT: SUDAN SUGAR INDUSTRY GROWING

¶1. Summary: Sugar consumption is growing rapidly in Sudan. The privately owned Kenana Sugar Company sees potential for further investment in Sudan's sugar industry, including a major new plantation employing 5,000 in the south. However, U.S. sanctions hamper development of the industry. The company is interested in pursuing a license through OFAC to bring in U.S. consultants and equipment. End Summary.

#### Sugar Industry Growing

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¶2. In a meeting on August 20, Dr. Osman Al-Nazir, Director General of Kenana Sugar Company provided an overview of sugar production in Sudan. He noted that consumption is rising rapidly, with household use up by 40 percent in the past two years and industrial use rising from 50,000 tons to 183,000 tons in two years. A large part of the industrial use is for soft drinks. Al-Nazir noted that Kenana's mill, originally built to produce 300,000 metric tons per year, now churns out 400,000 tons of sugar annually. He described the plant as a 'twin' to a plant in Texas, and said that Kenana misses its former ties to U.S. technical expertise. The company is working in coordination with the Minister of Industry to start the process to obtain a license through OFAC to bring in U.S. consultants. Al-Nazir added that the company would like to be able to import U.S. equipment, specifically Caterpillar and John Deere equipment. Al-Nazir mentioned that Kenana would especially like to purchase John Deere two-row harvesters, as there is no equivalent available elsewhere. Al-Nazir stated that use of U.S. technology would allow for greater energy efficiency. The company is already one of the most highly productive sugar growers in the world, with yields of 117 tons per hectare.

#### Consumption, Imports and Exports

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¶3. Sugar consumption is running at about 1.2 million tons per year. Kenana produces 400,000 tons and imports and refines another 200,000. Four government owned sugar mill produce about 400,000 tons. This leaves a shortfall of about 200,000 tons. The new White Nile project, built with Chinese assistance, will come into production in about 3 years and supply 350,000 tons per year. Kenana annually exports 100,000 tons of sugar at high prices to the EU under the Everything but Arms arrangement. Earlier this year, Kenana imported raw sugar from Brazil for refining.

¶4. Al-Nazir expressed disappointment in the government's decision to increase the tax on sugar, lamenting that the price of sugar now is 51 percent tax and 49 percent 'ex-mill' price. He said that the sugar industry had hoped that increase in oil revenues would lead to a reduction in taxes on sugar. However, that had not occurred.

#### Potential of Project in Southern Sudan

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¶5. The Melut sugar project in Southern Sudan could employ 5,000 permanent workers and an additional 5,000 during the construction phase, according to Al-Nazir. As proposed, the Melut project would be owned by the Government of Southern Sudan, but Kenana is interested in providing services under contract to the get the project up and running. The projection is for the Melut project to provide 110,000 tons per year, which would be about 50 to 60 percent of the South's consumption.

#### Green Energy

¶6. Looking ahead further, Al-Nazir said that Kenana is looking at the production of ethanol from molasses. Currently, nearly all molasses produced is trucked from the mill to Port Sudan and exported. Kenana would like to transform the 130,000 tons of molasses produced each year into 70 million liters of ethanol. Al-Nazir said that ethanol production would have the advantage of allowing more of Sudan's oil to be exported while improving the profitability of the sugar sector. Barring new discoveries, it is anticipated that Sudan's oil production will begin to decline by ¶2009. Ethanol would provide a green source of energy to replace declines in petroleum production.

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